THE COMMISSION HOUSE IN LATIN AMERICAN TRADE

SUMMARY

Method of business in the trade with South America; the commission house problem, 118. — Three groups of South American countries; nature and extent of the exports to each, 121. — Ten groups of exported articles; by what method they are handled, 125. — Character and proportion of the exports handled by commission houses, 132. — Doubts whether manufacturers are wise in dispensing with such houses, 135.

Much has been said and written of late years about our trade relations with Latin America. A glowing picture is usually drawn of the possibilities of this trade, and appeal is made to our manufacturers for study and cultivation of the South American markets, while at the same time our apathy is censured and our methods sharply criticised. The manufacturer is urged to seek South America as his natural field, but is told that shipping facilities are inadequate; he is informed that long credits must be granted, but that there are no friendly banks to assist him and discount his bills; it is impressed upon him that his goods must be brought to the personal attention of the buyer abroad, but he learns that personal representatives in this distant market are costly and too often incompetent. Perplexed and inexperienced in foreign commerce, he is exhorted to hasten before his well-equipped and alert European competitors, already established, totally occupy the field.

Under these circumstances it is pertinent to inquire how our present annual trade with South America,

amounting to $560,000,000 is constituted, how such a volume of business, by no means insignificant, has been built up, and how it is now handled and financed. If the export commission house takes the leading place in this inquiry, it is not because the writer, himself engaged in this business, desires to appear as its apologist, but because it is in fact the most important factor in our South American trade. The export commission house was the pioneer in developing this branch of our commerce, and even today secures and finances 70% of the business actually done. Its functions and activities deserve impartial consideration.

As a preliminary it will be advisable to examine briefly the character of our export transactions with our southern neighbors.

No part of the world, perhaps, illustrates better than Latin America the fact, often overlooked, that buying power is not commensurate with population. All of its component countries are very sparsely populated in proportion to their size and resources. Immense Brazil, with a territory one third larger than the United States, has barely twenty-one million inhabitants. Prosperous Argentina, rapidly coming to a leading position as a grain-producing and cattle-raising country, depends on only seven millions for its development, while Bolivia, twice as large as France, has not much over a million people. Yet for 1910 the total foreign trade of Latin America amounted to over $2,000,000,000, about equally divided between exports and imports. Our share of this total was $562,000,000, or 28%.

The purchases from us by Latin America for the year ending December 31, 1910, reached the not unsatisfactory total of $258,580,000 as compared with only $65,000,000 taken by the Far East with its teem-

ing millions. Mr. O. P. Austin, Chief of the Bureau of Statistics, estimates that we supply Latin America with 24% of all the goods which it imports, while we furnish the rest of the world with only 14% of its purchases from abroad. Our present trade with Latin American countries represents 19% of our entire foreign trade. If we take into consideration the fact that these countries are only just beginning to develop their enormous resources and that their population as it increases will not only maintain but will surely augment its present purchasing power, it seems clear that we have a field for the extension of our trade actually more valuable than the Far East and comparatively more valuable than Europe.

A little more than one half of our total interchange with Latin America is composed of what we import, consisting principally of tropical and semi-tropical products, which need be considered in the present discussion only so far as they are received in direct payment for exported goods. Since these products are staples, such as coffee, cacao, rubber, hard woods, hides, and ores, which are handled in bulk on a large scale, the merchants who deal in them tend to specialize, limiting their transactions to one or another of the articles. The exports, however, are more diversified in character and demand special attention. Those covering the twelve months ending December 31, 1910, were distributed among the five general divisions of Latin America as follows: —

To Haiti and San Domingo	$8,482,000
To Cuba	53,784,000
To Mexico	63,859,000
To Central America	32,152,000
To South America	100,304,000
Total	$258,581,000

It might be better for our purpose to regroup these exports according to the countries in which the prevailing conditions and methods of transacting business are identical or practically the same. This would reduce the number of groups to three only and give the following totals: —

Group I. — Cuba and Mexico	$117,643,000
Group II. — Haiti and San Domingo, Central America, Venezuela, Colombia .	50,946,000
Group III. — Balance of South America . . .	89,993,000
	$258,581,000

Cuba and Mexico, composing Group I, present special features, as these are the two countries of Latin America in which the greatest amount of American capital is invested, represented approximately by $150,000,000 in the first country and by $750,000,000 in the second country, out of a total of about $1,223,000,000 in all Latin America. As these investments are largely in such enterprises as railways, tramlines, mines, and plantations, it is natural that the greater part of the materials and supplies required should come from the United States; "trade follows the loan, not the flag." Moreover, the linking of Mexico to the United States by lines of railroads, the close political affiliation of Cuba with us, and the extension of American banking facilities to both countries, have made it possible for the American merchant or manufacturer to do business in them on practically the same terms as in the more remote parts of the United States. Much of the business is now done direct by the manufacturers, the most successful of whom have established their own branches or selling agencies in Cuba and Mexico.

Quite different conditions maintain in the countries

of our second group. Here the prevailing commercial practice is that of barter or exchange of products without the intervention of the machinery of banking. They happen also to be the countries which have been somewhat unstable politically, and it is this very instability and the consequent lack of development of interior means of communication that have prevented the establishment of international banks and necessitated the retention of this somewhat primitive and inconvenient method of trade. The American exporter and importer engaged in business with these countries is as a rule one and the same person. The Central American importer at the coast city sends his merchandise to his clients in the interior who in turn forward to him their produce or articles of exportation. These he ships to his commission merchant in New York or New Orleans, who sells them on commission and applies the proceeds against the value of his own invoices. It is obvious that for this class of trade the New York or New Orleans commission merchant is a necessary part of the machine. It is practically impossible for the American manufacturer to do the business direct. The Central American or North Coast merchant does not order enough of a single article to warrant making a special shipment of it or to justify the manufacturer in soliciting at large expense the trade direct, in ascertaining the standing and responsibility of the buyers, and maintaining the necessary specially trained staff of clerks. The importer's orders consist of a great variety of different articles which the commission merchant buys from the respective manufacturers, assembles, and ships together, invoicing them at the manufacturer's export prices, and charging a commission for his services and the use of his credit. More-

over, the manufacturer, especially when located in the interior of the United States, has not the facilities for disposing advantageously of the various products which would be received in payment.

It is evident that this form of business has its disadvantages and should be undertaken only by those who have convinced themselves of the probity of their foreign clients; for goods are exported and pass from the owner's possession and control without any safeguard of final payment, capital is locked up in such a way that it cannot be re-employed until the transaction is liquidated, and the time of liquidation cannot be definitely fixed, since it is subject to such contingencies as the uncertainty of crops and deficient means of communication. The export commission house has undertaken these complex functions and has been doing the work well for many years.

The third group in our classification, composed of the remaining republics of South America, which have shown the greatest economic advance, is characterized by the fact that all the countries, with the exception of Ecuador, which might possibly be included in Group II, are well served with a system of international banks. Several English, German, Italian, and French banks have well-established branches in all the large cities of Brazil, Argentina, Chile, Peru, and Bolivia, and sub-branches or agencies in the smaller cities and towns. Most of these really great banks also have agencies or correspondents in New York.

Another point to be considered in regard to the countries of Group III is that the individual transactions are as a rule on a much larger scale than in Group II. This circumstance, taken in connection with the extensive international banking system, has had its influence on the methods of conducting business in

this part of Latin America. An importer need not be, and seldom is, an exporter. The articles of export from these countries, such as the corn, wheat, flour, cattle, sheep, and animal products of the Argentine Republic; the coffee, cacao, hides, and rubber of Brazil; the nitrate of soda and copper of Chile; the cotton, sugar, copper, and fertilizers of Peru; and the tin and rubber of Bolivia, — are each of sufficient importance and are handled on a sufficiently large scale to be specialized. Efficient cable service enables the large exporter to know exactly what price he can receive in New York, London, or Hamburg for his wheat, coffee, or rubber and what he can afford to pay the farmer or gatherer for his produce; and the international banking facilities are so ample that he can receive the actual cash for his shipment as soon as it is placed on board the outgoing steamer. Thus the producer also can obtain the full market value of his produce in cash, less the middleman's commission, and has no need to ship on consignment and wait months for his money. For the same reasons, the American exporter to these countries can draw drafts against the shipments of merchandise that he makes — they may be at thirty, sixty, or ninety days sight or even longer time — and discount them with the foreign banks, provided his credit is good in London, Hamburg, or Paris, or at least receive advances on account. He need not be also an importer.

It is evident that these are conditions which may tempt the manufacturer to seek direct trade without the intervention of the commission merchant; but he has other factors to consider before definitely committing himself to this policy. He must decide whether his product is one that can be shipped in bulk or in such quantity or value that it can go by itself, whether

the margin of profit in connection with the prospective demand is sufficient to cover the necessarily large selling expenses and the maintenance of a special clerical staff both abroad and at home, and whether his banking facilities are such that he can grant the required credit without tying up too much of his capital.

To summarize the conclusions in regard to the three groups of Latin American countries: Group I offers special attractions to those manufacturers who wish to do a direct business, Group II presents no such inducements to them, and Group III is an open field for the commission houses and for manufacturers of a certain class if they can comply with certain fixed conditions. It will be interesting to see how the actual shipments to these different groups and the channels through which they pass bear out these findings.

A large proportion of our shipments to Latin America may be condensed and classified under ten general headings. It can be seen at a glance that they cover lines of products and manufactures in which the United States enjoys an undoubted advantage and which are most free from competition with the rest of the world. Some of them are necessities of life which cannot be purchased elsewhere. The following are these ten general headings and the percentage which each represents of our total exports to Latin America: —

Food Products	$33,800,000	13 %
Steel Products & R. R. Material	21,300,000	8¼%
Lumber & Office Furniture	17,500,000	6¾%
Petroleum Products	12,025,000	4¾%
Agricultural Implements & Twine	10,850,000	4 %
Boots, Shoes & Leather	8,000,000	3 %
Electrical Machines & Instruments	7,000,000	2¾%
Cotton & Cotton Goods	6,325,000	2½%
Typewriters, Phonographs & Sewing Machines	4,000,000	1½%
Naval Stores	2,500,000	1 %
	$123,300,000	47½%

The remaining 52½% of our shipments, on the other hand, is made up of a great variety of manufactured articles, very few of which attain individually sufficient volume or value to be specified separately in our statistics. The most conspicuous group among them is Builders' Hardware, amounting to $14,500,000 or 5½% of our total exports, and comprising all kinds of tools, cutlery, and general hardware. Shipments of $4,000,000 worth of coal to Cuba and Mexico are also prominent, but can be attributed without doubt to the American industrial interests in these countries, as practically no coal was shipped to other parts of Latin America.[1] In fact, it is almost impossible to get other than American engineers to use American steam coals, on account of the special care required in tending the fires. It is safe to say that practically all of the remaining unspecified 45% is the result of orders taken by the export commission houses and shipped and financed by them.

Analyzing a little more closely the items included under each of the ten general headings, some interesting features appear. It will be learned that $11,000,000 of meat products and lard went to Cuba and Mexico alone, where the big packing houses have established their own branches or selling agencies. The remaining two and a half millions were taken by the countries of Group II and Group III and were shipped through the commission houses. Practically all of the $4,000,000 of wheat and corn were also for Cuba and Mexico, but must be put to the credit of the commission houses, as is usual with all raw products subject to daily fluctuations in price. Out of the $11,700,000 of flour,

[1] Since the beginning of the current year several full cargoes of coal have been shipped to Brazil They have, however, all been destined for the extreme north or extreme south of the country, where American interests are in control of some of the railroads

Cuba accounted for four and a half millions, the balance being divided about equally among Brazil, Central America, and the rest of South America. It is safe to say that all of the Cuban business was done direct by the millers, while all the sales to the remainder of Latin America were made through the export commission houses. Before the Spanish-American war all the business to Cuba also was handled by the commission houses; at the close of the war, however, the island was overrun by American drummers, among them representatives of millers, both large and small, seeking an outlet for their surplus and not always too scrupulous to refrain from selling a quality which might not be suited to the purpose of the buyer.

With cotton-seed oil the situation is similar. Mexico consumed over one half of the $3,000,000 worth that was exported, receiving it direct from the crushers. Argentina was next in importance, taking its supplies through the commission houses, as did the rest of Latin America.

In connection with this branch of our export trade, it should be noted that up to a few years ago Brazil was a heavy consumer of American lard and bacon. Today the exports, except to the Amazon valley, are practically nil, as the Brazilian home product supplies that country's want. The same is true of cotton-seed oil. In the case of flour the Argentine product has pushed the American, which formerly controlled all Brazil, back half way up the coast, so that our exports today, except in limited quantities, seldom reach south of Pernambuco. The restriction of these three items represents a considerable loss of trade to the export commission house.

The principal single item under the exports of steel products and railroad material for the past year (1910)

was steel rails amounting to a little more than $5,000,000; this naturally includes rails for plantations and industrial purposes, for tramlines and steam railways. The plantation and industrial rails were practically all purchased through the commission houses, the other rails were for the most part sold direct by the manufacturers to the tram or railroad companies or their financial agents, in many cases located in Europe. Nearly $2,000,000 of the total quantity was taken by Mexican railroads largely controlled by American interests and by industrial companies backed by American capital. Rails to a value of $500,000, mostly for industrial purposes and financed by export commission houses, went to Central America, and only $2,500,000 of value to the rest of South America. Yet Brazil alone imported from various countries $6,500,000 or more, of which our share was only $900,000. Belgium secured the bulk of the business. Freight and passenger cars are next in importance with a total of $4,780,000, of which again the greater portion, $3,000,000, was taken by Cuba and Mexico. This business was done either direct by the builders or through export houses which were the special agents of the builders. Four million dollars would represent the total shipments of steel wire, handled almost entirely by the commission houses and well distributed among the three groups, Group I taking about $1,500,000, Group II, $750,000, and Group III, $1,750,000. The $3,000,000 of steel and iron pipe, however, went entirely to Cuba and Mexico, with the exception of $400,000 to Central America, which would indicate that we were not in a position to compete with Europe in this article and obtained what trade we did only on account of American capital investments or proximity of the market. Structural steel has been exported from

the United States only in the last few years, but last year attained the total of $2,500,000. This development is due largely to the establishment of selling agencies by the Steel Corporation in some of the principal cities of Latin America under the charge of engineers who can give expert advice. These agencies are supplied with a certain amount of stock of standard shapes from which prompt delivery can be made. Thus the large buyers are taken care of direct, and only the smaller dealers are left to the commission merchant. Locomotives to the value of $1,700,000 complete this second general heading, and in this instance most of the business was done by some export commission house protected by an exclusive agency arrangement with the manufacturer.

In the third general class, composed of pine, spruce, and oak lumber, and office furniture, the United States has little or no competition. With the exception of a few full cargoes sent direct to Cuba by the mills and some few direct transactions in furniture, this considerable trade is in the hands of the commission houses.

The Argentine Republic is the largest importer of agricultural implements and binder twine, taking a total of $8,560,000 in value, of which at least 75% was shipped direct by the manufacturers, the most prominent being the International Harvester Company, which with its immense resources can afford to grant the extended credit required for the sale of harvesting machines and can furnish the necessary staff of technical experts to see that they are properly set up and operated during the reaping season. Cuba and Mexico's $900,000 can also be considered direct business, while the remaining $1,350,000 must be nearly all placed to the credit of the export commission houses.

The total exports of petroleum products are composed of about $500,000 of paraffin; $2,000,000 of lubricating oil; $1,500,000 of crude oil; and $8,000,000 of kerosene and naphtha. The entire amount of the paraffin and crude oil was taken by Cuba and Mexico direct from the producers or their agents; a large proportion of the lubricating oil was also sold by the direct agencies of the refiners. The case of kerosene and naphtha, however, is quite different. As long as the Standard Oil Company and its allied companies were alone in this business, they refrained from seeking or accepting direct business in Latin America, allowing all the transactions to pass through the hands of the export commission houses. During the last few years, however, independent refiners have entered the field and by direct sales and shipments on consignment have secured a constantly increasing share of the trade. As this is competition of a class which cannot easily be met by a middleman who has no control of the basis price, the probability is that this important item of our export trade will soon pass out of the hands of the commission merchant through the establishment of direct selling agencies of the Standard Oil Company.[1]

Over five-eighths of our business in boots, shoes, and leather was with Cuba and Mexico, which have been overrun with salesmen from our shoe and leather factories; the balance has been handled through the middlemen.

Of our exports of electrical machinery and instruments it will be found that nearly $5,000,000 out of the total of $7,000,000 were taken by Mexico and

[1] Since this article was written (July) the Standard Oil Company has chartered for its own account nine steamers to carry to the River Plate full cargoes of kerosene and naphtha in cases, which will be marketed through its own selling agencies. Two of these steamers have already been despatched

Brazil. The large exports to these two countries can be traced directly to the influence of American capital investments in Mexico and to the fact that a large American and Canadian Company controls all the electric traction, lighting, and power privileges of Rio de Janeiro and São Paulo, and that the similar privileges in other Brazilian cities are held by a strong Brazilian firm representing some of our electric manufacturing companies. Cuba's share was three quarters of a million dollars, due also to the influence of American and Canadian capital. The remaining $1,250,000 was distributed among the other countries of Latin America and was the portion secured by the commission houses.

The reasons for our comparatively poor showing in the exports of cotton goods have been discussed too often to require consideration here. Mexico took all of the $700,000 worth of raw cotton exported and only $225,000 of the manufactured product. She, as well as Brazil, has well-established mills of her own that supply her wants in the coarser grades of cotton goods, the only class in which America appears to be able to compete with Europe. The greater portion of the remainder went to Cuba, Central America, and Colombia, the nearby countries, and to Chile, which, having no mills of her own, finds the United States nearer in point of time as a source of supply for rough goods. It is safe to say that under this heading only $1,000,000 out of the total of $6,000,000 was sold direct by the manufacturers.

The typewriters, phonographs, and sewing machines that are sold in Latin America are patented articles controlled by very large, strong companies. The business was first developed by the commission houses, but once a foothold was secured, these companies

took it into their own hands, establishing their agencies and depots in the principal cities of Latin America, even going so far as to sell to the individual buyer on the installment plan. The small, out-of-the-way places they have still left to the commission merchant.

The United States has practically no competition in rosin and turpentine, the principal items of naval stores, and the amount exported is simply a question of demand. As with most staple products the intervention of a commission house is usual and, in fact, almost necessary.

The above analysis, tho only an approximate estimate, indicates that somewhat more than 70% of our total exports to Latin America is at the present time handled by the export commission houses. If Cuba and Mexico were excluded from the count, the percentage would be much larger. The thirty per cent of the total that has been lost by the commission merchant is accountable to the direct sales by manufacturers and packers to nearby and closely allied Cuba and Mexico, to the materials and supplies furnished to enterprises financed by American capital, and to the establishment of their own relations in the principal centers of South America proper by such large combinations as the International Harvester Company, the Steel Corporation, the Singer Sewing Machine Company, and a few other large companies. The petroleum products will also soon be removed from the open market, and the modern tendency of large corporations to market their products through their own selling organizations may lead some of the larger manufacturers of sundry machinery to open their own branches in countries like Brazil and the Argentine Republic. Thus the field narrows for the commission merchant. It is a serious question whether,

under the present method of trade, he can afford to handle and finance the thousand and one articles, not worthy of specification, that go to make up 45% of our entire exports, if his trade is limited to them by the elimination of the bulk or staple articles which require little labor to sell and mount quickly in value.

Up to the present time the commission merchant has earned on the large turn-over in staple articles sold in large quantities sufficient to enable him to maintain his offices and salesmen in the principal cities of Latin America, employ the expert staff necessary in his home office, cover his general running expenses, and accept and execute orders for general merchandise on the same basis of profit or commission as the bulk goods. It does not require any more labor or time to secure an order for ten thousand cases of kerosene valued at ten or eleven thousand dollars than it does to take an order for five hundred dozen of padlocks worth only five hundred dollars. In the first case the commission merchant might earn $250, in the second case, only $12.50. In order to gain a sufficient turn-over in general merchandise sold in small quantities he would be obliged to increase largely his selling force and also his clerical staff, as the detailed work of handling such business is enormous. Such expansion would involve a great increase in expenditures, which could not be undertaken under the prevailing percentage of profit; yet that percentage is extremely difficult to increase unless the manufacturers make radical changes in their present methods of bringing their goods to the attention of the ultimate buyers and of negotiating their sales.

The advice that is so indiscriminately distributed to manufacturers to seek direct connections abroad may not only in some cases cause considerable capital

loss to the manufacturers but, if generally followed, might also eventually lead to a decrease rather than an increase of our export transactions. Hitherto it has cost the general manufacturer nothing to market his goods in Latin America beyond the trifling expense of publishing a few special catalogues. He has received his orders from the export commission houses and has been paid prompt cash for his goods as soon as they have been placed on board the steamer in New York or other ports of shipment. He has also been relieved to a great extent from claims from foreign buyers, when the goods shipped are of inferior quality, or not according to order, or not shipped on contract time. Since the buyer looks first to the commission merchant and holds him responsible for any deviation from his contract of purchase, the export commission house has shouldered the burden. It is the commission merchant, furthermore, who has stood all the expense of maintaining agents and salesmen in the principal commercial centers of Latin America, of sending special travellers from time to time, of employing experts acquainted with foreign languages to attend to the details of shipping, correspondence, making up of commercial and consular invoices, in which the slightest mistake or deviation from the prescribed form will involve heavy fines in the foreign custom houses, who advances the money to prepay ocean freight and charges, and who risks his capital in granting the long credits required.

The commission merchant not only expends and locks up a large sum of money in the machinery for conducting his business, but also, no matter how good his banking facilities may be, is obliged to tie up as margin in banks an amount of money proportionate to his transactions, and always has a contin-

gent liability for the entire amount of his transactions until they are actually liquidated, a period of time averaging five or six months. Hence a commission merchant whose sales may average $100,000 per month is constantly carrying a liability of $500,000 or $600,000. The fact that the sales are to various countries, to different towns, and to different customers in each country, with different dates of maturity, and consist of many different classes of merchandise, so that a general "debâcle" is practically impossible, is the only reason that he is able to discount his bills with any freedom at the European banks. An individual manufacturer unless exporting on a very large scale could not expect to obtain the same banking facilities.

What conditions, then, confront the manufacturer who decides to cultivate a direct trade with Latin America, and undertakes first to get a foothold in Brazil, Argentina, and the West Coast countries? He already receives a certain amount of business through the commission houses, to whom he has named a cash price covering a manufacturing profit but probably lower than his domestic price, since he has had no selling expenses to consider, and has been paid cash. If he believes that his business can be increased by the elimination of the middleman and by direct sale, he must employ a competent salesman, who understands his product and speaks Spanish and Portuguese, at a salary which may run from $2500 to $3000, and he must send him to South America. It will take a year to cover the countries in question on a preliminary trip, as stays of a month or even two months may be necessary to accomplish anything in some of the principal cities. The cost of travelling will average at least ten dollars per day. In the first

town that his traveller visits, he will find that the importer has been receiving his goods at exactly the price paid by the commission merchant, plus the freight charges and a commission of only 2½% or at the most 5%, and that he is given ninety days time after the arrival of the goods in which to make payment, being charged interest at the rate of 6% per annum. Unless he can continue to obtain the goods at the same price and on the same conditions he will not place his orders. Let us assume that the manufacturer conforms to the conditions and is successful enough to book orders to the extent of $100,000 during the year. When he comes to execute the orders he finds that he must employ a special clerk to make out his invoices and consular papers in Spanish and Portuguese, at a salary of at least $1000 a year, and in addition, if he is not located in New York, he must pay some broker to handle the shipping papers and details. He cannot afford to withdraw $50,000 from his manufacturing capital and seeks to discount his ninety days sight bills on the foreign buyers. His local bank refuses to have anything to do with them, or, if it takes them, must perforce pass them through one of the foreign banks having agencies in New York and must charge the manufacturer a double discount. If he is located in New York or its vicinity, he may be able to arrange for partial discount direct with the foreign banks, but will undoubtedly have to leave a substantial margin undiscounted which will curtail his manufacturing capital. When he casts his balance sheet at the end of the year, he finds that his sales may have increased, but he has incurred $7000 or more of extra expenses and earned only an additional $2500 to offset them, and has tied up a portion of his working capital. The difference goes against his manufacturing profit. He

pockets his loss and in the future is likely to look with an unfavorable eye on direct export business. In the meantime the commission merchants have ceased to solicit or accept orders for his goods and have substituted a competitive line, or if it is a non-competitive line, have dropped that class of business entirely. If, on the other hand, he recognizes at the start that he must raise his prices in order to cover the extra expenses, he is likely to defeat his object and diminish his sales.

This is by no means an unusual case; and such experiences go far to explain the slow growth of that direct trade which many writers and speakers advocate. It is not an exaggeration, in my opinion, to say that such indiscriminate advice has elements of real danger.

The advocates of direct business, however, will argue that the commission houses do not vigorously push general lines of manufactured goods. The fact is that they do, as a rule, seek such business up to the limit of their capacity and margin of profit, but they cannot afford under the present conditions to devote as much time and effort as they would desire when this branch of trade yields no more commission or profit than staple or bulk articles. It may be asked why the commission merchant does not increase his commission or percentage of profit to a point that will compensate him for extra effort? Principally because the over-eagerness of the American manufacturer to sell makes American general merchandise the least profitable of any, not only for the foreign merchant who imports to resell but also for the export commission merchant or middleman. Furthermore, the American manufacturer, as a class, has not yet learned to respect the rights of his middlemen in his export transactions as he does in his domestic

trade. Any merchant in Latin America, be he big or small, worthy of extended credit or on the verge of bankruptcy, can write to almost any American manufacturer and be quoted the lowest export price for his product down to the last cash discount; catalogues are sent abroad indiscriminately, even to individual consumers, showing the exact price at which the largest jobbers can purchase the articles advertised. This simply illustrates a lack of experience in foreign trade and contrasts with the protection which European manufacturers, such as the German, have learned to give to their recognized factors in the more highly developed organization of foreign commerce.

Such, then, is the situation. A large business to Latin America has been built up largely through the enterprise and activity of the export commission houses; the action of various agencies is gradually removing from the hands of the commission merchant many lines on which he depends to give his business sufficient volume to carry his heavy fixed expenses; deprived of those lines, he might not earn a net profit on the smaller sundry lines sufficient under the present conditions properly to compensate for his capital risk. Eliminate the commission house and many manufacturers could not afford to do a direct export business, and such as could would do it at a greatly increased expense and be obliged to raise their selling price or curtail their profits, thus either increasing the already established competition from Europe or diminishing the desirability of engaging in foreign trade.

The conclusion seems to be clear. If, as is desirable and will ultimately be necessary, we are to develop our foreign market for goods competing with the manufactures of Europe, we must study with care all the

conditions in each individual case. When the manufacturer is producing on a large scale and is determined to build up a permanent foreign connection he may profitably enter the field. This is, in fact, the present tendency in the growth of direct sales to Latin America. But for the use of the greater number of smaller manufacturers, selling diversified products, there is at hand an admirable mechanism in the export commission house. There must be, however, intelligent coöperation on both sides, and due consideration for the services of the middlemen.

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